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PETRO FIELD INDUSTRIES INC.

2001 ANNUAL REPORT

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Report to the Shareholders

Dear Shareholder,

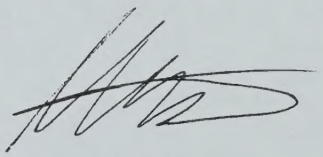
The Board of Directors and management team at Petro Field Industries are pleased to present the audited financial statements for the year ending Sept. 30, 2001. Due to a disciplined approach to our business and successful execution of a proven growth strategy, our fiscal year 2001 has exceeded annual targets for sales, production, cash flow and net income.

Our strategy of constantly challenging and refining existing designs, consistently setting new standards for quality control and continually discovering cost cutting measures is shared by senior management, administrative staff and fabrication crews alike.

Enclosed in your mailing with this annual report are the first quarter results. Due to the economic downturn and the subsequent drop in the value of oil and gas, first quarter revenue was considerably lower than the same period last year. With reduced sales, following our corporate strategy of continually looking for cost cutting measures and achieving a high level of quality control are especially important. Our strategy is the key to protecting shareholder investment. Although the demand for proposals has been very active, currently over $4 million outstanding, spending has been reserved. Only company expenditures relating to production and that which is necessary to maintain viability as a company will be authorized. This will ensure success and position Petro Field to take full advantage of industry spending as it improves. Including the quarterly report with the annual report was a cost effective way to present this mailing to you.

The management and staff of Petro Field Industries look's positively toward the future with a disciplined approach to long term, sustained, profitable growth.

Yours sincerely,



William D. Rollins
President and Chief Executive Officer

Highlights – The Year in Perspective

Fiscal year 2001 reflects the results of Petro Field's focus on sustained long-term profitable growth. Commodity prices and the economic environment remained favourable through out the year, enabling Petro Field to maximize opportunities for maintaining last year's tremendous growth in sales in addition to enhancing profitability.

Strategic advancements were made in engineering personnel and fabrication management, which increased the company's capabilities in both design and fabrication productivity. Previous shop and yard expansions in addition to the completed implementation of a cost control system allowed Petro Field to realize greater cost efficiency and a higher level of quality control.

Increased product diversity was realized through additional sales training and the advanced skill level of the newly developed engineering department. Sales of oil related products rose significantly through the third quarter contributing to increased revenues and profitability. Additional revenues were created throughout the year by the industry's recognition of Petro Field as a company offering advanced design in addition to producing a superior quality product, allowing opportunities with clients inaccessible in the past.

Sales rose by 11.25% while net earnings grew from a net loss after taxes of ($11,806) to a net income after taxes of $231,978. A disciplined approach to purchasing, inventory control and fabrication productivity produced a reduction in cost of sales by 1.13%. In spite of the increase in sales, the company was able to realise a reduction in both sales and general and administrative expenses from that of the previous year.

Looking forward to 2002, Petro Field will continue to follow a proven strategy of long term, profitable growth by maintaining our additional market share while focusing on further increased fabrication productivity, tighter cost controls and an ongoing commitment to the production of a superior quality product.

Auditors' Report

To the Shareholders of
Petro Field Industries Inc.:

We have audited the balance sheets of Petro Field Industries Inc. as at September 30, 2001 and 2000 and the statements of earnings and retained earnings (deficit) for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Petro Field Industries Inc. as at September 30, 2001 and 2000 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
January 3,2002

Dick Cook Schulli

CHARTERED ACCOUNTANTS

Balance Sheet

As at September 30, 2001 and 2000

	2001	2000
Assets		
Current		
Accounts receivable	$ 1,807,119	$ 1,567,300
Inventory – Note 3	837,080	589,423
Prepaid expenses and deposits	26,827	23,489
	2,671,026	2,180,212
Property, plant and equipment – Note 4	697,061	602,212
Future income taxes – Note 5	41,567	208,804
	$ 3,409,654	$ 2,991,228
Liabilities		
Current Liabilities		
Bank indebtedness – Note 6	$ 720,448	$ 681,224
Accounts payable and accrued liabilities	1,281,016	1,101,320
Income taxes payable	8,915	-
Current portion of long-term debt	42,146	41,387
	2,052,525	1,823,931
Long-term debt – Note 7	352,522	394,668
	2,405,047	2,218,599
Commitments – Note 8		
Shareholders' Equity		
Share capital – Note 9	784,650	784,650
Retained earnings (deficit)	219,957	(12,021)
	1,004,607	772,629
	$ 3,409,654	$ 2,991,228

Approved by the Board:

_____, Director _____, Director

Statement of Earnings and Retained Earnings(Deficit)

For the years ended September 30, 2001 and 2000

	2001	2000
Sales	$ 11,400,911	$ 10,183,604
Cost of sales	9,850,193	8,914,017
Gross margin	1,550,718	1,269,587
Expenses		
Amortization	50,203	33,634
General and administrative	725,210	730,732
Interest on long-term debt	42,552	39,655
Sales	327,685	418,858
	1,145,650	1,222,879
Earnings before income taxes	405,068	46,708
Income taxes – Note 5		
Current	5,853	-
Future	167,237	58,514
	173,090	58,514
Net earnings (loss)	231,978	(11,806)
Retained earnings (deficit), beginning of year	(12,021)	(215)
Retained earnings (deficit), end of year	$ 219,957	$ (12,021)
Basic earnings (loss) per share	$ 0.03	$ (0.01)

Statement of Cash Flows

For the years ended September 30, 2001 and 2000

	2001	2000
Cash provided by (used for):		
Operating activities		
Net earnings (loss)	$ 231,978	$ (11,806)
Add items not affecting cash		
Future income taxes	167,237	58,514
Amortization	50,203	33,634
Loss on disposal of capital assets	2,484	-
	451,902	80,342
Change in non-cash working capital items		
Accounts receivable	(239,819)	(425,355)
Inventory	(247,657)	502,917
Prepaid expenses and deposits	(3,338)	(3,921)
Accounts payable and accrued liabilities	179,696	(326,013)
Income taxes recoverable/payable	8,915	30,826
	149,699	(141,204)
Financing activities		
Proceeds from long-term borrowings	-	19,450
Repayment of long-term debt	(41,387)	(40,145)
Proceeds from issue of share capital	-	500,000
Costs of issuing share capital	-	(95,034)
	(41,387)	384,271
Investing activities		
Capital asset additions	(160,586)	(108,056)
Proceeds from disposal of capital assets	13,050	-
	(147,536)	(108,056)
Increase (decrease) in cash	(39,224)	135,011
Bank indebtedness, beginning of year	(681,224)	(816,235)
Bank indebtedness, end of year	$ (720,448)	$ (681,224)

Notes to Financial Statements

For the years ended September 30, 2001 and 2000

Note 1 – Operations

Petro Field Industries Inc. ("the Company") was incorporated under the Business Corporations Act of Alberta on November 20, 1995. The Company's principal business activity is the manufacturing and sale of oilfield equipment to the oil and gas industry.

Note 2 - Summary of Accounting Policies

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of the financial statements necessarily involves the use of estimates and approximations which have been made using careful judgment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Revenue recognition

Revenues from the design, fabrication and installation of oilfield equipment are recorded when the products are completed and accepted by the customer or the services are rendered. Any foreseeable losses on contracts are charged to operations at the time they become evident.

b) Inventory

Inventories are recorded at the lower of cost and net realizable value. Cost for raw materials is determined on a weighted average basis. Work-in-progress and finished goods are valued at the cost of material and labour.

c) Property, plant and equipment

Property, plant and equipment are stated at cost. Amortization is provided by the declining balance method at the following annual rates:

Building	5%
Office Equipment	20%
Computer Equipment	30%
Computer Software	100%
Vehicles	30%
Shop Tools and Equipment	20%
Paving	8%
Building under capital lease	5%

In the year capital assets are acquired, amortization is based on one-half the rate specified.

c) Property, plant and equipment *(Continued)*

When capital assets are sold or scrapped, the cost of the asset and the related accumulated amortization is removed from the accounts and the resulting gain or loss on disposal is included in net income.

d) Income taxes

The asset and liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated tax recoverable or payable which would arise if assets and liabilities were recovered and settled at the financial statement carrying amounts. Future income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Changes to these balances are recognized as income in the period in which they occur.

e) Earnings per share

Effective January 1, 2001, the Company retroactively adopted the new Canadian accounting recommendations for computation of earnings per share. Under the new standard, the treasury method for calculating diluted earnings per share must be used. This method assumes that any proceeds from the exercise of stock options which are "in the money" and other dilutive instruments would be used to purchase common shares at the average market price during the period. The diluted loss per share has not been presented as the outstanding options are not "in the money" and therefore are not dilutive. During the periods presented, outstanding stock options are the only instruments that are potentially dilutive to earnings per share.

f) Translation of foreign currencies

Assets and liabilities are translated at the exchange rate prevailing at the balance sheet date. Revenues and expenses are translated at the rate of exchange prevailing at the translation date. Gains or losses from the translation of the accounts maintained in foreign currencies are reflected in the statement of earnings.

Note 3 – Inventory

Inventory is comprised of the following:

	2001	2000
Finished goods	$ 88,537	$ -
Work-in-progress	70,907	66,520
Raw materials	677,636	522,903
	$ 837,080	$ 589,423

Note 4 - Property, Plant and Equipment

	2001		
	Cost	Accumulated Amortization	Net Book Value
Land	$ 311,400	$ -	$ 311,400
Building	241,397	24,921	216,476
Office equipment	41,181	28,069	13,112
Computer equipment & Software	49,262	29,325	19,937
Vehicles	17,000	17,000	-
Equipment and tools	106,399	27,154	79,245
Paving	41,560	2,685	38,875
Building under capital lease	19,450	1,434	18,016
	$ 827,649	$ 130,588	$ 697,061

	2000		
	Cost	Accumulated Amortization	Net Book Value
Land	$ 311,400	$ -	$ 311,400
Building	176,278	15,241	161,037
Office equipment	36,352	25,394	10,958
Computer equipment	32,946	18,883	14,063
Vehicles	38,500	13,145	25,355
Equipment and tools	60,709	13,054	47,655
Paving	13,313	533	12,780
Building under capital lease	19,450	486	18,964
	$ 688,948	$ 86,736	$ 602,212

Note 5 - Income Taxes

Temporary differences and tax loss carry-forwards which give rise to future income tax assets and liabilities are as follows:

	2001	2000
Future income tax assets (liabilities)		
Tax loss carry-forwards	$ -	$ 147,476
Property, plant and equipment	20,401	24,198
Share issuance costs	21,166	37,130
Future income tax asset, net	$ 41,567	$ 208,804

Note 5 – Income Taxes (*Continued*)

The effective income tax rate in the Company's statement of earnings differs from the statutory Canadian rates mainly as a result of the following:

	2001		2000	
	Amount	%	Amount	%
Income tax at statutory Canadian rates	$ 174,665	43.12	$ 20,841	44.62
Increase (decrease) resulting from:				
Manufacturing and processing deduction	(2,607)	(0.64)	(2,625)	(5.62)
Other	(8,853)	(2.18)	14,721	31.52
Adjustment of future income tax asset for change to tax rate	9,885	2.44	25,577	54.76
Income tax expense (benefit)	$ 173,090	42.74	$ 58,514	125.28

Note 6 - Bank Indebtedness

	2001	2000
Components of income taxes		
Current	$ 5,853	$ -
Future	167,237	58,514
	$ 173,090	$ 58,514

	2001	2000
Bank indebtedness	$ 708,000	$ 814,534
Bank overdraft (cash)	12,448	(133,310)
	$ 720,448	$ 681,224

The Company has a maximum credit facility in the amount of $1,250,000 with interest at bank prime plus 1.5% per annum. Security is comprised of a registered General Security Agreement and an assignment of insurance showing the bank as first loss payable on equipment and inventory and second loss payable on the building.

Note 7 - Long-Term Debt

	2001	2000
Loan payable, requiring monthly payments of $3,150 plus interest at 8.95% per annum, secured by a land mortgage, a general security agreement and the assignment of shares held by the President of the Company.	$ 381,150	$ 418,950
Agreement requiring blended monthly repayments of $549 including interest at 19.35% per annum to January 2004 and a final payment of $1,945 in February 2004, secured by a building with a net book value of $18,016.	13,518	17,105
	394,668	436,055
Less current portion	42,146	41,387
	$ 352,522	$ 394,668

Principal payments due over the next five years are as follows:

2002	$ 42,146
2003	43,066
2004	41,706
2005	37,800
2006	37,800
Thereafter	192,150
	$ 394,668

Note 8 – Commitments

The Company has entered into various operating leases for vehicles and equipment. Payments over the next five years are estimated as follows:

2001	$ 85,000
2002	58,000
2003	45,000
2004	21,000
2005	4,000
	$ 213,000

Note 9 - Share Capital

a) Authorized:

Unlimited number of common voting shares of no par value
Unlimited number of preferred shares issuable in one or more series

b) Issued:

	2001		2000	
	Number of Common shares	Amount	Number of Common shares	Amount
Balance, beginning of year net of share issuance costs	8,000,000	$ 784,650	5,500,000	$ 331,402
Issued on private placement	-	-	2,500,000	500,000
	8,000,000	784,650	8,000,000	831,402
Share issuance costs (net of future tax benefits)	-	-	-	(46,752)
	8,000,000	$ 784,650	8,000,000	$ 784,650

c) Stock Options:

Under the Company's stock option plan, the Company may grant options to employees, officers, and directors up to 10% for the total issued and outstanding common shares. Under the plan the options vest one third at the grant date and one third on each of the second and third anniversary dates.

	2001		2000	
	Stock Options	Exercise Price per Share ($)	Stock Options	Exercise Price per Share ($)
Outstanding, beginning of year	457,000	0.20	457,000	0.20
Granted	280,000	0.20	-	-
Cancelled	(211,000)	0.20	-	-
Outstanding, end of year	526,000	0.20	457,000	0.20
Exercisable, end of year	339,240		457,000	

Note 9 - Share Capital (*Continued*)

c) Stock Options *(Continued)*

Exercise Price	Number of Shares	Expiry Date	Number of Shares Exercisable
0.20	246,000	September15, 2002	246,000
0.20	280,000	August 20, 2006	93,240
	526,000		339,240

d) Escrow

As at September 30, 2001 – NIL (2000 - 1,000,000) common shares are held in escrow by the transfer agent subject to the direction or determination of the relevant regulatory authorities.

e) Warrants

The Company issued 1,250,000 warrants to acquire 1,250,000 common shares at $0.60 per share in connection with the 2000 private placement of common shares. These warrants expired in 2001.

Note 10 - Financial Instruments

Credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry. The company mitigates credit risk by requiring deposits and progress billings.

Interest rate risk

The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings.

Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet, other than long-term debt, approximate their carrying amount due to the short-term maturity of those instruments. The fair value of long-term debt does not differ significantly from its carrying amount.

Note 11 - Related Party

The Company purchased materials with a value of $68,480 (2000 - $Nil) from a company owned by a director and an officer. These transactions are in the normal course of business and have been recorded at the exchange amount.

Corporate Directory

Corporate Directors and Officers

William D. Rollins
President, Chief Executive Officer,
and Director
Petro Field Industries Inc.
Calgary, Alberta

Gordon Rhine
General Manager
Petro Field Industries Inc.
Calgary, Alberta

Philip J.Taylor
Secretary and Director
Ritadon Inc.
Calgary, Alberta
President

Mark Breakall, CA, CPA
Director
Joyline Brooks Inc.
Calgary, Alberta
President

For Further Information Contact:
Bill Rollins
President, Chief Executive Officer,
and Director
Telephone: (403) 244 - 3333 Ext. 102
Fax: (403) 245 - 1821
E-mail: brollins@petro-field.com

Corporate Information

Legal Counsel
Blake, Cassels & Graydon LLP

Auditor
Dick, Cook, Schulli

Transfer Agent
Olympia Trust Company

Stock Exchange
The Canadian Venture
Exchange
Trading Symbol: "PF"

Annual General Meeting
April 17, 2002
Blake, Cassels & Graydon LLP
#3500, East Tower, Bankers Hall
855 - 2nd Street S.W.
Calgary, Alberta

Corporate Head Office
Petro Field Industries
4915 - 43rd Street S.E.
Calgary, AB T2B 3N4